

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-01 INR-07 IO-14 NEA-10 NSAE-00 USIA-15
OPIC-06 SP-02 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15
NSC-05 STR-05 PA-02 PRS-01 L-03 H-02 /133 W
-----089913 141018Z /14

R 140934Z SEP 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 1390
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS
(WEEK ENDING SEPTEMBER 12)

REF: BONN 13933, BONN 13364, BONN 14531, BONN 14722

1. TAX RELIEF BILL TO BE SUBMITTED TO
LEGISLATORS THIS WEEK:

ACCORDING TO DPA, THE SPD/FDP BUNDESTAG FACTIONS ARE
SCHEDULED TO FORMALLY APPROVE ON SEPTEMBER 13 AND SUBMIT
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TO LEGISLATORS ON SEPTEMBER 14 A BILL PROVIDING FOR A
PACKAGE OF TAX REDUCTIONS ALONG LINES SPELLED OUT IN BONN
14722. FIRST READING OF THE DRAFT LEGISLATION IN THE
BUNDESTAG WILL REPORTEDLY TAKE PLACE ON SEPTEMBER 15.
BUNDESTAG APPROVAL OF THE PACKAGE SEEMS ASSURED. HOWEVER,
GIVEN CONTINUED OBJECTIONS IN CDU/CSU QUARTERS (PARA 2
OF 14722), THE REQUIRED APPROVAL BY THE OPPOSITION-

CONTROLLED BUNDESRAT, WHICH IS TENTATIVELY SCHEDULED TO DECIDE ON THE ISSUE ON OCTOBER 14, IS STILL VERY UNCERTAIN, AND THE PACKAGE MIGHT WELL BE REFERRED TO THE BUNDESTAG/BUNDESRAT CONFERENCE COMMITTEE AND BE ALTERED IN THE END.

2. COUNCIL OF ECONOMIC EXPERTS URGES GREATER STIMULATION THROUGH MORE FAR-REACHING TAX RELIEF:

IN A LETTER TO THE CHANCELLOR, THE COUNCIL OF ECONOMIC EXPERTS RECOMMENDED THAT THE GOVERNMENT SEEK GREATER STIMULATION THROUGH MORE FAR-REACHING TAX RELIEF THAN IS CURRENTLY CONTEMPLATED. PAINTING A DIM PICTURE OF GROWTH AND EMPLOYMENT PROSPECTS AND WARNING AGAINST RELIANCE ON FURTHER ACCELERATION OF GOVERNMENT SPENDING AS THE PRIMARY REMEDY, THE "FIVE WISE MEN" URGED THAT ALL POSSIBILITIES FOR TAX CUTS BE FULLY EXPLOITED. TO BE MOST EFFECTIVE, TAX CUTS SHOULD BE OF A PERMANENT NATURE, THE EXPERTS ADVISED, AND, THEREFORE, FORTHCOMING INCOME TAX RELIEF SHOULD ANTICIPATE (NOT PREJUDICE) THE FORTHCOMING BASIC INCOME TAX RATE RESTRUCTURE. THE MOST URGENT TASK IN THE COUNCIL'S VIEW IS INTRODUCTION OF MORE GENEROUS DEPRECIATION ALLOWANCES WHICH, IT IS IMPLIED, SHOULD BE RAISED BEYOND THE LEVEL APPLICABLE THROUGH 1960. (NOTE: THIS WOULD INVOLVE GREATER THAN CURRENTLY-CONTEMPLATED UPPING OF

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PERMISSIBLE RATES UNDER THE DECLINING BALANCE METHOD -- PARAGRAPH 1C OF BONN 14722.) ANY FORTHCOMING STIMULATION PROGRAM, THE COUNCIL CONTINUED, SHOULD BE ACCOMPANIED BY MODEST WAGE POLICIES IN ORDER TO KEEP AN ADEQUATE NUMBER OF JOBS COMPETITIVE.

3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD AUGUST 24-31 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 86.5 BILLION. CREDITS GRANTED TO THE IMF UNDER SPECIAL BORROWING ARRANGEMENTS INCREASED BY DM 242 MILLION WHILE FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 174 MILLION. FOREIGN LIABILITIES FELL BY ABOUT DM 130

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MILLION.

4. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY
DM 3.0 BILLION. THE BASIC FACTOR INCREASING LIQUIDITY
WERE USUAL END-OF-MONTH PAYMENTS OF PUBLIC AUTHORITIES
WHICH REDUCED FEDERAL GOVERNMENT ASSETS HELD AT THE
BUNDESBANK BY DM 4.6 BILLION TO DM 0.2 BILLION AND
BUNDESBANK ASSETS OF STATE GOVERNMENTS BY DM 2.6
BILLION TO DM 3.5 BILLION. ASSETS OF OTHER PUBLIC
AUTHORITIES INCREASED BY DM 0.5 BILLION. OTHER FACTORS
INCREASING LIQUIDITY WERE THE ABOVE-MENTIONED INCREASE
IN BUNDESBANK MONETARY RESERVES AND DM 0.2 BILLION OF
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RETURNS OF MONEY MARKET PAPER TO THE BUNDESBANK.
LIQUIDITY WAS REDUCED BY THE USUAL INCREASE IN CURRENCY

IN CIRCULATION AT THE END OF A MONTH (DM 3.3 BILLION)
AND A DM 0.8 BILLION INCREASE IN BANKS' HOLDINGS OF
RESERVES AT THE BUNDESBANK. ON AUGUST 31 SUCH
RESERVES AMOUNTED TO DM 50.4 BILLION WHICH IS SUBSTAN-
TIALY ABOVE ANTICIPATED SEPTEMBER RESERVE REQUIREMENTS.
SINCE RESERVE REQUIREMENTS WERE REDUCED BY DM 4.5
BILLION (SEE BONN 13933) THEY MAY IN SEPTEMBER BE NOT
HIGHER THAN DM 42-43 BILLION.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE
LOMBARD BORROWINGS BY DM 4.0 BILLION TO DM 4.8 BILLION.
AT THE SAME TIME, THEY INCREASED NORMAL REDISCOUNT
BORROWINGS BY DM 0.6 BILLION TO DM 15.0 BILLION AND
BORROWINGS UNDER THE SPECIAL REDISCOUNT FACILITY BY DM
0.4 BILLION TO DM 7.3 BILLION. THE SPECIAL REDISCOUNT
FACILITY, HOWEVER, WAS CLOSED BY THE BUNDESBANK ON
SEPTEMBER 5 (SEE BONN 14531) SO THAT THE BANKS HAVE TO
REPAY OUTSTANDING BORROWINGS UNDER THIS FACILITY BY
SEPTEMBER 15.

5. MONEY MARKET:

DURING THE REPORTING PERIOD, FRANKFURT INTERBANK MONEY
RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
SEPT 6	4.0	4.05	4.05
7	4.0	4.05	4.05
8	4.0	4.05	4.05
9	4.0	4.05	4.05
12	4.0	4.05	4.05

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6. FOREIGN EXCHANGE MARKET:

DURING THE PERIOD SEPTEMBER 6-13, FRANKFURT SPOT AND
FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS						
SPOT DOLLARS			(IN PCT. PER ANNUM)			
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH	
SEPT 6	2.3250	2.3245	2.3223	-2.6	-2.4	
7	2.3180	2.3183	2.3170	-2.0	-2.4	
8	2.3169	2.3183	2.3220	-2.2	-2.4	
9	2.3258	2.3273	2.3247	-2.5	-2.5	
12	2.3280	2.3283	2.3271	-2.9	-2.8	
13	2.3265	2.3276	N.A.	N.A.	N.A.	

7. CREDIT FOR MEXICAN BANK:

A BANKING CONSORTIUM LED BY THE WESTDEUTSCHE LANDESBANK

HAS GRANTED A DM 100 MILLION CREDIT TO THE MEXICAN BANCO NACIONAL DE CREDITO RURAL. THE MATURITY IS REPORTEDLY 5 YEARS, THE INTEREST RATE HAS NOT BEEN MADE PUBLIC.

8. ITALY REPAID \$500 MILLION CREDIT TO FRG:
ACCORDING TO THE GERMAN PRESS, THE BANK
OF ITALY HAS REPAID \$500 MILLION OF THE \$2 BILLION CREDIT
GRANTED BY THE FRG TO ITALY IN 1974. THE BUNDESBANK'S
BALANCE SHEET OF AUGUST 31 (SEE PARAGRAPH ON BUNDESBANK
FOREIGN POSITION) DOES NOT YET SHOW THIS TRANSACTION
BUT IT MAY BE RECORDED IN THE SEPTEMBER 7 BALANCE
SHEET OF THE BUNDESBANK NOT YET AVAILABLE TO THE EMBASSY.

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9. BOND MARKET:
ON THE MARKET FOR DOMESTIC BOND PRICES REMAINED STABLE.
ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF
DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE
AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

SEPT 9 4.35 5.00 5.50 5.85 6.20 6.30

SEPT 2 4.35 5.00 5.50 5.85 6.20 6.30

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THE NEXT DOMESTIC LOAN WILL BE A DM 900 MILLION LOAN OF THE FEDERAL GOVERNMENT CARRYING THE SAME CONDITIONS AS THE DM 800 MILLION LOAN OF THE FEDERAL RAILWAYS OFFERED ON AUGUST 17 (SEE BONN 13364), I.E., A COUPON OF 6 PERCENT, AN ISSUE PRICE OF 99 1/2, AND A MATURITY OF 10 YEARS RESULTING IN A YIELD TO MATURITY OF 6.07 PERCENT. DM 150 MILLION WILL REPORTEDLY BE HELD IN RESERVE FOR PRICE SUPPORTING CONTINGENCIES.

10. FOREIGN DM BONDS:

THE DM 100 MILLION LOAN OF MALAYSIA WAS OFFERED AT CONDITIONS SLIGHTLY DIFFERENT THAN REPORTED IN BONN 14531. FINAL CONDITIONS WERE A COUPON OF 6 1/2 PERCENT, AN ISSUE PRICE OF 99, AND A MATURITY OF 8 YEARS. CURRENTLY THE LIGHT SERVICOS DE ELECTRICIDADE OF BRAZIL IS OFFERING A DM 50 MILLION LOAN (COUPON 9 PERCENT, ISSUE PRICE 100, MATURITY 5 YEARS). FURTHERMORE, TWO PRIVATE PLACEMENTS OF DM 20 MILLION EACH ARE CURRENTLY BEING SOLD; ONE FOR THE SOUTH AFRICAN IRON AND STEEL IND. CORP. (ISCOR; 8 1/4 PERCENT, ISSUE PRICE 100, 3 YEAR MATURITY), THE OTHER FOR THE MEXICAN NACIONAL FINANCIERA S.A. (7 PERCENT, ISSUE PRICE 100, 5 YEARS).

ON SEPTEMBER 14, THE IBRD WILL OFFER PUBLICLY A DM 300 MILLION LOAN (COUPON 6 PERCENT, 8 YEAR MATURITY), AND FOR PRIVATE PLACEMENT BONDS OF DM 150 MILLION (COUPON 5 1/2 PERCENT, 5 YEAR MATURITY). IN MID-SEPTEMBER ARGENTINA AND THE AUSTRIAN GIROZENTRALE, VIENNA, WILL ISSUE LOANS OF DM 100 MILLION EACH. THE ARGENTINE LOAN IS EXPECTED TO CARRY A 7 1/2 PERCENT COUPON AND A 7 YEAR MATURITY; THE AUSTRIAN LOAN A 5 1/2 PERCENT COUPON AND A 5 YEAR MATURITY. THE FRENCH CREDIT NATIONAL DE PARIS HAS ANNOUNCED THE ISSUE OF A DM 150

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MILLION LOAN ON SEPTEMBER 22. THE COUPON WILL BE 6

PERCENT, THE MATURITY 10 YEARS WITH REPAYMENT TO BEGIN
AFTER 5 YEARS.
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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